

Services Division
European Satellite Committee

Meeting of 7 May 1958

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Present: [redacted] S/COM; [redacted] S, TF; [redacted] S/TR; [redacted] S, CST; [redacted] D/A; [redacted] D/M; [redacted] D, I; [redacted] St/I; [redacted] 25X1X7

A panel of four analysts discussed economic developments in Hungary since the revolution. Miss [redacted] D/A, opened the discussion with some remarks on the economic situation in Hungary prior to the revolution in October 1956. She pointed out that the problems of the Hungarian economy were not created by the revolution but were existent as far back as 1952. These problems were caused not only by overrapid industrialization but by uneconomic use of Hungarian resources and wrong direction of investment. Industrial production almost broke down in 1953, and they have been trying to redirect it since that time. She emphasized that Hungary's strength lies in agricultural land and skilled manpower and not in the mineral or fuel resources required for heavy industry.

Mr. [redacted] S, TF, sketched the picture with regard to foreign trade. The foreign trade turnover doubled from 1949 to 1956. In 1956 Hungary had a favorable balance with the West for the first time in years. Immediately after the revolution the credits obtained from the USSR and other countries of the Bloc enabled Hungary to finance a large import surplus in 1957, a situation which cannot continue. Hungary is faced with the dilemma that she will have to export in order to obtain needed imports, but because of its internal price structure it loses on exports and profits on imports (but not enough to cover losses on exports). They plan to achieve an export balance in 1958, but this probably will not come to pass.

Mr. [redacted] D/A, discussed the housing problem, which appears to be one of the more urgent ones. On the eve of the revolution, housing conditions were bad, characterized by severe overcrowding, lack of privacy, and substandard quality. Most of the damage during the revolution was in Budapest, where a conservative estimate of the damage was 10 per cent of the dwelling units destroyed. A large part of the unusually high number of dwelling units reported as handed over to the people in 1957 were probably rebuilt or repaired housing damaged during the revolution. With a large population loss following the revolution, the housing situation in 1958 is slightly better off quantitatively, but this is somewhat offset by

a continuing decline in quality. The prospect for improvement during the next few years is not good, as plans for 200,000 new units from 1958 to 1960 have been cut back to 77,000 units.

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[REDACTED] S, COM, described telecommunications in Hungary thusly: the number of telephones in Hungary doubled from 1950 to 1957, and of the 200,000 telephone subscribers in 1957, 120,000 were in Budapest. Most of the damage to the telephone system during the revolution was in Budapest, where estimates of telephones out of service were between 50,000 and 100,000. According to official reports, the damage was repaired by the end of 1956, but this is doubtful. Three large exchanges of 40,000 telephones each are planned, one by 1960, a second by 1961, and a third by 1964, but little progress has been made in installing these. There are also plans for installing microwave stations. Not too much has been done to improve interurban service, which never has been adequate -- either before the revolution or after.

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Miss [REDACTED] then summarized what has happened since the revolution. The loss from the revolution is estimated at 22 billion forints -- or one-fourth of the national income. Recovery has not been sufficient for national income to return to the 1955 level of 93.1 billion forints (in 1954 prices). Raw materials and consumer goods were poured into Hungary after the revolution by the USSR and the other satellites, and the consumer has "never had it so good" since the war. However, this is a spurious prosperity. The 1957 budget was balanced by means of credits. Hungary is faced today with a 2 billion forint deficit in foreign trade. In 1957 industrial enterprises had to be subsidized for losses incurred during the year to cover the wage bill. The major problems today appear to be that of keeping the consumer level of 1957 and improving export industries. Industries that require labor skills rather than imported raw materials is essential, in order to utilize the country's best resources and produce a higher level of living. However, unless they revise their economic planning, they will not be able to do this.

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Mr. [REDACTED] announced that two people from S,TF are going to the trade fair in New York. Anyone having questions or observations these people could make at the fair should contact [REDACTED] on extension 2085.

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On May 14,

[REDACTED] will meet with the Committee.

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Secretary